A PROFILE
OF THE
MANITOBA DAIRY INDUSTRY

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The dairy industry in Manitoba is comprised of about 1,050 milk producers and 1,500 cream producers whose products are processed in nine fluid milk plants, one powder-butter facility, six cheese manufacturing operations and ten creameries. In addition there are two research facilities (at the Portage Food Product Development Centre and the Food Science Department, University of Manitoba, Winnipeg) which process milk, five cheese cutting and packaging facilities and one milk powder packaging plant. In total there are 34 dairy processing and packaging facilities in this province.

Production

From a production standpoint there are two main divisions in the industry, namely, milk and cream.

Milk production is usually the main farm enterprise often combined with cereal grain production, where the operations may be fairly sophisticated with automated feeding and milk conveying equipment and where the milk is cooled and stored in farm bulk tanks and transported as milk to the processing plant by bulk milk transport.

This is the true dairy producer that is referred to. In all the 1,050 producers milk about 50,000 dairy cows with average production ranging from 5,000 to 6,000 litres per cow per lactation. The latter figure would refer to animals enrolled on a milk recording program. The average herd size is about 45 - 50 cows and these are predominantly holstein. Production facilities are located near urban centres.

Cream production is normally a secondary or tertiary enterprise on the farm and may be associated with beef production. Cattle are often non dairy types and may include beef or dual purpose cows. Milk is separated on the farm into cream, which is delivered to a local creamery to be made into butter, and skim milk which is fed to cattle or hogs. Production is usually seasonal.

The long term trend shows a continuing reduction in numbers of both milk and cream producers although the decline has been much more evident and rapid in the latter case. In many parts of Canada and the U.S.A. the cream production has disappeared completely.

Dairy farm cash receipts (including subsidy payments) totalled $145.80 million for the 1988/89 dairy year. Payments from the Manitoba Milk Producers' Marketing Board were close to $130 million and from creameries about 5 million. Subsidy payments for that year were near $11 million.

If an estimated value of $45 million for sales of dairy cattle shipped as beef were included total dairy farm cash receipts for the 1988/89 dairy year were over $190 million.

Processing

From a milk processing point of view the industry can be sub-divided into two main categories; fluid milk and industrial milk. The cream processing industry which is not large is usually included as part of the industrial milk sector.

Fluid milk refers to that milk used in manufacture of bottled milk such as homogenized, partly skimmed and skim milk, and flavored milks.

Industrial milk refers to that milk used in making cheese (cheddar and specialty) and other cultured products, skim milk powder and butter, from milk separated at the processing plant, and ice cream.

Milk Production in Manitoba
1982 - 1987

Calendar Year	Litres of Milk (000 litres)
1982	293,500
1983	292,200
1984	297,300
1985	289,800
1986	291,300
1987	306,600

The total Canadian milk production in 1987 was 73.655 million hectolitres. Manitoba produces a little over 4% of Canadian production and has about 3.8% of the population.

Total milk production is utilized, approximately, as follows:

Fluid milk	40%
Industrial Milk	50%
Farm Separated Cream	10%

Marketing

The marketing structure of milk and cream in Manitoba is rather complex and will be examined broadly here and in more detail later in the program.

Farm separated cream is marketed directly by producers to creameries at prices established in the market place but which are partly determined by such factors as the support price and offer to purchase programs of the Canadian Dairy Commission. Individual producers hold market sharing quotas which basically determines the amount of butterfat they can ship without penalty and on which they receive a federal subsidy payment.

All fluid and industrial milk is marketed through the Manitoba Milk Producers' Marketing Board. A producer's price is a pooled price determined by class utilization, size of fluid milk requirement in relation to industrial milk production (the latter is influenced by available Market sharing quota), butterfat differential and content, milk quality and the producer Board's entitlement policy including the producers Total Allowable Production (TAP). The return is modified by specific deductions which include transportation charges, Board deductions, CDC levies on MSQ assessment. All of this will be explained later in the program.

Milk is classified, according to its utilization, into several classes. The price paid by the processor for Class I milk, that which is used in the bottled trade, is set by the Manitoba Milk Prices Review Commission based upon cost of production. The price paid by processors for all other classes of milk is set by M.M.P.M.B. according to such factors as the current market situation here and in other provinces and the target price established nationally for industrial which is influenced by support prices and offer to purchase programs and subsidy payments of the CDC. Milk prices for all classes of milk are modified by a butterfat differential payment.

It should be noted that fluid milks do not move inter-provincially to any degree while all other products may move inter-provincially and are sold competitively.

Supply Management

Industrial milk and cream production in Canada is controlled by a national supply management program which is based on a policy of national self sufficiency on a butterfat basis.

This means that the domestic market for industrial milk products is supplied from Canadian production except for a controlled volume of cheese imports, related to some extent to historical data and production capability of these products in Canada, and small amounts of other dairy products. Imports are closely controlled by the federal government.

The supply management program operates by means of market sharing quotas determined by national domestic requirements for butterfat - shared provincially. Each province allocates its share of the national quota to its producers according to its own quota policies. Provincial quota allocation may be increased or decreased according to domestic needs nationally and could potentially be moved inter-provincially based upon provincial utilization of quota. This system is being changed at this time to reflect such things as population change.

There is a subsidy payment to producers by the CDC for production within a producer's MSQ.

As indicated the domestic requirement is estimated annually on a butterfat basis and MSQ is set at that level for the year. This can be adjusted during the dairy year. When production of milk on a butterfat basis equals domestic butterfat consumption there is a surplus of production of non-fat solids (SNF). This happens partly because milk is composed of 3.5% fat and 9% solids-non-fat. The surplus SNF, usually in the form of skim milk powder, must be exported onto the world market. The price received in that market has been depressed for some time - certainly below domestic support levels. Producers pay the difference through a levy on in-quota production. To put this into perspective producers receive a subsidy on MSQ production of $6.03 per hectolitre and pay a levy of $3.00 per hectolitre to pay for disposal of in-quota SNF surplus.

On production over quota the levy, which must pay for export of butterfat as well as SNF, is significantly higher and in the order of $30 per hectolitre of milk. Considering that the blend price for milk is about $45.00 there is little incentive to produce beyond quota availability.

The supply management program is administered nationally by the Canadian Dairy Commission (CDC) and in this province by M.M.P.M.B. The plan policies are managed by the Canadian Milk Supply Management Committee which is chaired by the chair of the CDC and is made up of provincial, producer and government representatives.

The CDC manages the support price and offer to purchase program and the subsidy payment program all of which help to establish market price for industrial products and the price paid for milk to be used in these products. Final prices for finished products is set competitively in the market place. Subsidies are paid directly to producer by the CDC.

Institutions

There are four provincial bodies which play important roles in the dairy industry of Manitoba. These are:

- The Manitoba Milk Producers Marketing Board.

This is a Board of elected producers whose objective is to permit farmers to jointly take action to protect and improve their incomes through the control, regulation and promotion of the marketing of their product.

The Board operates under the aegis of the Manitoba Natural Products Marketing Act, has its own plan and can pass orders and regulations.

It establishes the price of all milk classes except class I (fluid milk), operates the milk transportation system ie. physically moves and directs the milk from the farm to the processing plant. It provides all Class I milk requirements and

directs other milk, in general, to areas of highest return to the producer. It literally sells milk to the processor and pays producers on a pooled basis for their milk. It administers the supply management program including issue of market sharing quota and levy collection and manages production generally through its policies. As well, it is involved in milk promotion.

- The Manitoba Natural Products Marketing Council.

This council is a body appointed by the Government of Manitoba which administers the Natural Products Marketing Act. It supervises the actions of the various marketing boards in the operation of their plans which are set up under the Act. It can act as an Appeal Body to actions of marketing Boards.

- Milk Prices Review Commission

This body is appointed by the Government of Manitoba and administers the Milk Prices Review Act. It sets fluid milk prices for Class I milk and can set minimum and or maximum retail and wholesale prices for fluid milk. Its objective is to ensure that adequate supplies of fluid milk are available to consumers at reasonable prices.

- Dairy Section, Manitoba Agriculture

This body is responsible for assurance of milk and milk products quality at both production and processing levels. It maintains a staff of farm and plant inspectors and operates the Provincial Dairy Laboratory to assist in assuring the safety of dairy products from a public health viewpoint.

The Dairy Section provides information to M.M.P.M.B. on which the quality penalty program is based. Also the Section provides and supports extension education programs for all segments of the industry.

This has been a brief overview of the dairy industry in Manitoba looking particularly at those aspects of the industry of interest to lenders and which hopefully will provide background information to the presentations to be made in this seminar.